



STATE OF INDIANA

Eric J. Holcomb
Governor

STATE BUDGET AGENCY
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June 3, 2019

As required by Indiana Code 4-12-1-12(a), I hereby transmit to Governor Eric J. Holcomb, Auditor of State Tera Klutz, and members of the Indiana General Assembly the following report on the appropriations made during the 2019 regular session of the Indiana General Assembly.

Summary

The FY 2020 – FY 2021 budget is structurally balanced with annual revenues exceeding recurring, annual expenditures in both FY 2020 and FY 2021. Pension obligations are fully met, and the Medicaid forecast is fully funded. In addition, this budget increases funding in key areas, including education, child services, pensions, and Medicaid. As a result, the state's combined balances are projected to exceed \$2.0 billion at the end of both FY 2020 and FY 2021. These reserves are in place to protect taxpayers and critical services in the event of an economic downturn.

Appropriations

The total General Fund appropriations made during the 2019 regular session of the Indiana General Assembly are \$17.1 billion for FY 2020 and \$17.5 billion for FY 2021. This includes annual operating appropriations of \$16.9 billion in FY 2020 and \$17.4 billion in FY 2021, biennial line item capital appropriations of \$248 million, and an appropriation in FY 2020 of \$27.5 million to cover the cost of a thirteenth check for pension recipients. Total appropriations from all sources of funds (state General Fund, dedicated funds, and federal funds) are \$38.5 billion for FY 2020 and \$38.6 billion for FY 2021.

K-12 Education

Funding for elementary and secondary education is the largest appropriation in Indiana's state budget. The General Assembly appropriates \$7.3 billion for FY 2020 and \$7.5 billion for FY 2021 for K-12 tuition support from the General Fund. Within the K-12 tuition support funding formula, per student foundation funding increases from \$5,352 to \$5,548 in FY 2020, followed by an increase to \$5,703 in FY 2021. Additionally, the General Assembly increases per student funding for preschool special education from \$2,750 in FY 2019 to \$2,875 in FY 2020 and \$3,000 in FY 2021.

The budget creates the Next Level Computer Science Program. The \$3 million annual budget for this program will fund grants to develop and implement high quality teacher professional development programs in computer science to support the requirement that all public high schools offer at least one computer science course per semester after June 30, 2021.

The budget increases funding for the Teacher Appreciation Grant program from \$30 million in FY 2019 to \$37.5 million annually in FY 2020 and FY 2021. This program provides stipends to teachers throughout the state that are rated effective or highly effective in the most recently completed teacher ratings.

The legislature increases funding for the Charter and Innovation Network School Grant Program under the State Board of Education from \$15 million to \$22.5 million annually. This annual grant program provides funding on a per pupil basis to charter and innovation network schools that do not receive local funding for capital improvements, technology, and transportation and school buses.

Total appropriations for K-12, excluding pre-1996 teacher pensions, are \$7.65 billion in FY 2020 and \$7.83 billion in FY 2021.

The budget includes a General Fund appropriation for the pre-1996 teachers' retirement fund of \$919.0 million in FY 2020 and \$946.6 million in FY 2021. Additionally, the budget transfers \$150 million from the General Fund reserves to help buy down the Post-1996 Teacher Retirement Fund (TRF) Plan, resulting in a 2% reduction in school corporation retirement contributions, which equates to an estimated ongoing savings to school corporations of \$70 million annually.

Higher Education

The budget appropriates \$2.76 billion for university operating funding during the FY 2020 – FY 2021 biennium. The budget continues to fund a percentage of university operating based on performance matrices established by the Commission for Higher Education. Performance funding is 7% of operating in FY 2020 and FY 2021. In addition to operating funding, the budget also appropriates \$159 million over the biennium for university line items.

Student Financial Aid receives General Fund appropriations in FY 2020 and FY 2021 totaling \$374 million and \$388 million, respectively. The budget increases Student Financial Aid by roughly \$38 million in FY 2020 and \$52 million in FY 2021 for a total biennial increase of \$90 million. The budget increases funding for the High Value Workforce Ready Grants program under the Commission for Higher Education from \$2 million in FY 2019 to \$4.75 million in FY 2020 and \$4.0 million in FY 2021. Grants from this fund are awarded to students who pursue high value certificates.

Health and Human Services

The budget appropriates \$4.1 billion in FY 2020 and \$4.3 billion in FY 2021 from the General Fund for Health and Human Services for operating expenses. The Family and Social Services Administration (FSSA) appropriations are \$3.2 billion from the General Fund in FY 2020 and

\$3.3 billion in FY 2021. The largest appropriation is for Medicaid Assistance. This budget fully funds the April 17, 2019, Medicaid forecast by appropriating \$5.1 billion over the biennium along with \$40 million of prior year Medicaid surplus funds. General Fund appropriations for Medicaid Assistance total \$2.5 billion in FY 2020 and \$2.6 billion in FY 2021. The General Fund Medicaid Assistance appropriations also include the consolidation of \$135.5 million annually in intergovernmental transfers that were previously appropriated as separate line items. The Healthy Indiana Plan (HIP), which is funded by cigarette tax revenue and incremental hospital assessment fees for the state share of expenditures, is not included in the Medicaid Assistance appropriation.

The budget includes an appropriation under the Governor's Office for substance abuse prevention, treatment, and enforcement. An annual appropriation of \$5 million is from the Addiction Services Fund to assist this purpose.

FSSA receives appropriations of \$49.5 million from the Tobacco Master Settlement Fund in FY 2020 and \$74.3 million in FY 2021 for health and human service programs. The Tobacco Master Settlement Fund appropriations for FSSA includes an \$18.8 million increase in FY 2020 and a \$43.6 million increase in FY 2021 to fund the state share of expenses under the Children's Health Insurance Program, due to decreases in the Federal Medical Assistance Percentage.

The budget also includes an annual \$5 million increase in the Recovery Works appropriation and an annual \$9.9 million increase in the First Steps appropriation, compared to the current biennium.

The Department of Child Services (DCS) appropriations are \$910.2 million in FY 2020 and \$900.2 million in FY 2021. These appropriations represent an increase of over \$500 million for the biennium as compared to the previous biennial budget appropriations.

The Indiana State Department of Health (ISDH) receives General Fund appropriations of \$29.6 million in both FY 2020 and FY 2021. ISDH also receives \$68.3 million in both years of the biennium from the Tobacco Master Settlement Fund. These appropriations including funding the new OB Navigator Program.

General Government

The legislative branch agencies receive an increase to their budgets in comparison to FY 2018 and FY 2019. The biennial appropriation of \$121.6 million for the legislative branch agencies includes funding for the National Council of Legislators Gaming Annual Dues, and an increase in operating expenses for the House and Senate.

General Fund appropriations for the judicial branch increases compared to the FY 2019 appropriations levels. The budget includes pay raises in FY 2020 and FY 2021 for local judges, as well, as an additional \$4.5 million each year of the biennium for the Public Defense Fund to reimburse counties for public defense costs.

The budget includes biennial appropriations of \$35.1 million from the Cigarette Tax Fund for the retiree health benefit trust fund to cover benefits for state employees under SEA 501-2007. In

addition, the budget includes other post-employment benefit appropriations for the Indiana State Police as well as conservation and excise officers.

Public Safety

The budget appropriates approximately \$492.6 million from the General Fund and dedicated funds for the operations of the Indiana State Police (ISP) for the biennium, including increased funding for the Forensic and Health Science Laboratories and for ISP pensions. This also includes appropriations to maintain the number of troopers at current staffing levels.

This budget also appropriates an additional \$10 million in funding for the Secured School Safety Grants administered by the Indiana Department of Homeland Security. Additionally, this budget also increases appropriations to the Criminal Justice Institute.

For the Department of Corrections, \$758.8 million and \$761.8 million is appropriated from the General Fund for FY 2020 and FY 2021, respectively. This is in comparison to the FY 2019 General Fund appropriation of \$739.2 million. These changes are for increases in contract expenses as well as an additional \$12.1 million each year of the biennium for the County Jail Maintenance Contingency Fund which reimburses local sheriffs for housing DOC's level 6 offenders in local jails.

Conservation and Environment

This budget appropriates \$48.9 million from the General Fund and \$77.8 million from dedicated funds for the Department of Natural Resources (DNR) in FY 2020. In FY 2021, the General Fund appropriation increases to \$49.2 million, while the dedicated fund appropriations remain unchanged. In both years of the budget, DNR receives additional funding from the Next Level Connections fund to support the Next Level Trails initiative.

The Indiana Department of Environmental Management (IDEM) receives \$23.1 million from the General Fund and \$90.8 million from dedicated funds in FY 2020. In FY 2021, the dedicated fund appropriations increases to \$94.2 million. These appropriations for IDEM include additional funding for the regulation of Confined Feeding Operations.

Transportation

The budget appropriates more than \$8 billion from General Fund, dedicated funds, and federal funds for transportation, including distributions to local units of government. This includes a \$45 million appropriation in both FY 2020 and FY 2021 from the General Fund for public mass transportation and a \$3.8 million appropriation in both FY 2020 and FY 2021 for airport development. Furthermore, the budget provides funding for the Next Level Connections program. The program will expedite the completion of major highway projects, expand broadband services in rural Indiana, grow the state's systems of trails, and create more nonstop international flights from Indiana airports.

Additionally, the budget invests up to \$229 million in rail development in Northwest Indiana. This includes up to \$205 million from the Next Level Connections Fund for the construction of

rail and \$24 million over the biennium from the General Fund for the state's share of the West Lake Corridor and Double Track commuter rail projects.

Economic Development

Over the biennium, the budget appropriates \$248.6 million from the General Fund for economic development programs at various agencies.

The budget appropriates \$20 million annually for the Department of Workforce Development's (DWD) Next Level Jobs Employer Training Grant Program, which reimburses employers that train, hire, and retrain new or incumbent workers to fill in-demand positions within recognized job fields. Additionally, the budget appropriates \$1.2 million over the biennium to DWD for the Office of Work-Based Learning and Apprenticeship, which serves to develop and implement a framework of various work-based learning pathways for both youth and adult populations.

The budget also provides appropriations to the Governor's Workforce Cabinet for the first time, including \$1 million annually for the Career Navigation and Coaching System, \$1 million annually for the Workforce Diploma Reimbursement Program, and nearly \$1 million over the biennium for the state match portion of the federal Perkins grant

The budget increases funding for the Business Promotion and Innovation fund under the Indiana Economic Development Corporation (IEDC) from \$15 million in FY 2019 to \$15.5 million in FY 2020 and \$17 million in FY 2021. In addition to the previous eligible uses of the appropriation, the fund may now be used to provide innovation vouchers to small Hoosier businesses, to establish a pilot project for income sharing agreements, and to promote and enhance the motor sports industry in Indiana.

Capital and Construction

The capital budget for the FY 2020 – FY 2021 biennium represents a continued commitment to the state's existing infrastructure, with a high priority on preventive maintenance and repair and rehabilitation rather than new construction. The capital budget increases funding for preventive maintenance of state facilities from \$58.9 million in the FY 2018 – FY 2019 biennium to \$60 million in the FY 2020 – FY 2021 biennium. The capital budget also includes \$170 million for repair and rehabilitation projects at state facilities and \$336.6 million for lease rental payments. In addition, the capital budget provides \$150 million in funding to address deferred maintenance needs across state owned facilities.

The capital budget includes funding for multiple technology improvements. The Secretary of State received \$10 million for the purchase of election security equipment to help protect Indiana's election infrastructure. The budget also included \$41.7 million for the Department of Revenue to continue design and implementation of a modernized integrated tax system, \$20 million to the Auditor of State to modernize the State's payroll and human resources management systems, and \$3.25 million for the Department of Local Government Finance to update two software systems.

Other major capital projects includes funding to support renovation and rehabilitation of the Swine Barn/Fall Creek Pavilion at the State Fairgrounds and funding for the Indiana State Police (ISP) to construct a third new regional laboratory to be located in Evansville following the construction of two new laboratories funded during the FY 2018 – FY 2019 biennium.

Further, the capital budget includes a new \$20 million appropriation for the Indiana Finance Authority to establish a financial assistance program for the maintenance and development of water infrastructure in the State of Indiana.

The budget again includes appropriations for both the stadium and convention center and state fair lease payments. These appropriations, \$92.4 million in FY 2020 and \$95.0 million in FY 2020 are not anticipated to be spent as locally derived revenues are projected to cover the lease payments.

For state universities, the General Assembly appropriates funding for Regional Deferred Maintenance projects at Indiana University and Purdue University as well as Campus Infrastructure Upgrades and Advanced Manufacturing Renovations at Vincennes University with cash appropriations. In total, higher education line item capital projects total \$37.9 million over the biennium. The budget provides funding to the higher education institutions for Repair and Rehabilitation projects totaling \$73.5 million over the biennium and fee replacement bonding authority totaling an additional \$351.2 million over the biennium.

Outside Acts

The Indiana General Assembly enacted several pieces of legislation during the 2019 regular session that impact General Fund revenues and expenditures. The most notable measures outside of the appropriations in the front section of the budget include: (1) changes to gaming matters in HEA 1015, (2) changes to economic development incentives in SEA 563, (3) a transfer to the Teachers Retirement Fund 1996 in HEA 1001 (Section 257), (4) the elimination of the Build Indiana Fund in HEA 1001 (various sections), and (5) changes to the taxes that are required to be collected and submitted by marketplace facilitators in HEA 1001 (various sections).

Additional details on the impact of legislation passed by the Indiana General Assembly during the 2019 regular session can be found in Section E.

Revenues

The economic and revenue forecasts, upon which the FY 2020 – FY 2021 budget is based, were presented to the State Budget Committee on April 17, 2019. Total General Fund forecasted revenue is estimated to be \$16.55 billion in FY 2020 and \$16.97 billion in FY 2021. Forecasted General Fund revenues are estimated to increase by \$412.6 million (2.6%) in FY 2020 and by \$416.2 million (2.5%) in FY 2021.

Economic forecasts project continued economic expansion through the upcoming biennium. The forecast that serves as the basis for revenue estimates currently projects Real U.S. gross domestic product growth of 2.8% in FY 2019, 2.1% in FY 2020, and 2.0% in FY 2021. Similarly, Real Indiana gross state product is forecasted to grow by 2.7% in FY 2019, 1.7% in FY 2020, and

1.4% in FY 2021. U.S. before tax corporate profits are forecasted to increase by 7.0% in FY 2019, 1.1% in FY 2020, and 3.0% in FY 2021. Indiana personal income is forecasted to grow by 3.8% in FY 2019, 4.3% in FY 2020, and 4.0% in FY 2021. Nominal Indiana wages and salaries are forecasted to increase 3.6% in FY 2019, 4.2% in FY 2020, and 3.3% in FY 2021. Indiana personal income net of government transfer payments is forecasted to increase 3.4% in FY 2019, 3.8% in FY 2020, and 3.7% in FY 2021

Over the past year, the number of employed Hoosiers has increased and the unemployment rate has remained historically low. The labor force participation rate and the changing demographics of the labor force are key aspects to Indiana's economic outlook. In the upcoming biennium, the unemployment rate is projected to continue to decline - reaching 3.2% in FY 2020. The Indiana labor force participation rate is projected to average 63.8% in FY 2019, 63.7% in FY 2020, and 63.6% in FY 2021.

Previous legislative sessions enacted reductions to the individual income tax rate, the corporate tax rate, and the financial institutions tax rate. The individual income tax rate was reduced from 3.4% to 3.3% beginning January 1, 2015 and was reduced to 3.23% on January 1, 2017. The corporate tax rate continues the enacted gradual decline to 4.9% in FY 2022. The financial institutions tax rate also continues to decline to 4.9% in CY 2023.

The April 17, 2019, revenue forecast was presented before the end of the 2019 legislative session and therefore, did not account for several revenue measures subsequently passed by the General Assembly. Some of these various changes affecting the Indiana tax code include changes regarding sales & use tax collection requirements for marketplace facilitators, changes to aspects regarding economic development tax credits, the determination of taxable income for Indiana tax purposes, the imposition of a new tax on sports wagering. Additionally changes regarding casinos include, location, deductions, tax rates and revenue distributions.

In addition to the revenues included in the revenue forecast, other revenues are deposited in the General Fund annually, including the Hospital Assessment Fee (HAF) and the Quality Assessment Fee (QAF), which were both extended in the budget through June 30, 2021.

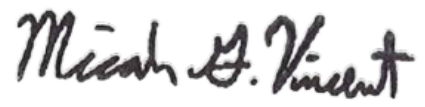
Reserve Balances

Indiana's combined reserve balance is projected to total approximately \$2.1 billion at the beginning of the FY 2019 – FY 2021 biennium. This combined balance includes reserves of \$297.2 million in the General Fund, \$577.6 million in the Medicaid Reserve fund, \$337.6 million in the Tuition Reserve fund, and \$514.4 million in the Rainy Day Fund.

The estimated reserve balance at the end of the FY 2019 – FY 2021 biennium is projected to remain at nearly \$2.1 billion, protecting taxpayers and critical services against future recessions.

A Combined Statement of Actual and Estimated Unappropriated Reserve (the Reserve Statement) follows this cover letter and reflects the best information available following the passage of the budget by the General Assembly.

Respectfully submitted,

A handwritten signature in black ink that reads "Micah A. Vincent". The signature is written in a cursive, slightly slanted style.

Micah Vincent
State Budget Director
State Budget Agency